

# Proper Accounting for State Monies Deposited into Escrow Accounts

## INTRODUCTION

From time to time, an agency possessing the authority to do so enters into an arrangement under which the agency deposits money into an escrow account or enters into a similar agreement in anticipation of the purchase of an asset, most frequently real estate of some sort. This deposit, though not available for other uses, is still cash and not the land or other asset that is the target of acquisition until the escrow closes. This Quick Reference Guide outlines the appropriate entries for accounting for both the deposit of State monies into escrow accounts or similar arrangements and the closing of the escrow upon the completion of the acquisition or the expiration of the option.

Depending upon events, the amount deposited into the escrow may: represent a complete or partial payment for the acquisition; in part, be applied to charges, such as attorney's fees, related to the acquisition; be forfeited upon expiration of an option; or be returned in whole or part to the State. Examples of the appropriate accounting transactions of all of these situations are given below.

## PROCEDURES

The following pages give examples of the types of entries to be entered into AFIS for the situations described. The transactions shown assume the agency will book the expenditures to the escrow account using the same chart of account elements as is used in the original claim. In the event that a new accounting distribution needs to be used, follow the steps below and then process an intra-agency transfer to move the expenditures.

These types of entries should be originated and processed in AFIS, according to the situation that applies:

### **1. *Establish an Escrow ID:***

The Escrow Definition (ESCROW) Page in AFIS provides the ability to define and track escrow activities. Each record on this page has a unique Escrow ID by Department. This unique ID is to be entered into the Escrow ID field on the document header of an accounting transaction document in AFIS to properly update the ESCROW Page.

To establish an Escrow ID:

- a) On Page Search, enter Escrow Definition in the Description field and click the Browse action. Alternatively, you can enter ESCROW in the Page Code field and click the Browse action.

## Proper Accounting for State Monies Deposited into Escrow Accounts

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- b) Click the Insert action. Enter a value in the Department, Escrow ID, Escrow Name, Escrow Short Name, Escrow Agent and Escrow BSA. Escrow BSA should be 0080.
- c) Optionally enter information in the Escrow Description, Escrow Extended Description, Escrow Type and click the Save action.

**2. *If an agency needs to make a deposit into an escrow or similar arrangement, it should be recorded as shown below:***

Cash on Deposit with Other Fiscal Agents (GL 0080) should be debited and Cash on Deposit with Treasurer (GL 0070) should be credited when money is deposited into an escrow.

Create a claim generating a warrant to be deposited into the escrow account held by a fiscal agent, using a Document Code of GAXB1 and Event Type of APZ7. Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR 0080 – Cash on Deposit with Other Fiscal Agents

CR 1211 – Claims Payable

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CR 1011 – Payments Outstanding

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CR 0070 – Cash on Deposit with Treasurer

**3. *If the escrow account is used as full payment for the acquisition:***

Process a GAX document using the Event Type GA23 and the appropriate expense object (such as 8111, etc.) and escrow asset, BSA 0080. This will book the appropriate Cash Expenditure and clear the balance in the Cash on Deposit with Other Fiscal Agents, BSA 0080. Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR External CE – Record Escrow Expenditure

CR 0080 – Cash on Deposit with Other Fiscal Agents

## Proper Accounting for State Monies Deposited into Escrow Accounts

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**4. *If the escrow account is used as a partial payment for the asset, create the following two transactions:***

Create a GAX document using the GA23 Event Type and the appropriate expense object and escrow asset, BSA 0080, similar to #3 above, for the amount used as payment for the asset. Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR External CE – Record Escrow Expenditure

CR 0080 – Cash on Deposit with Other Fiscal Agents

Then create a CR document to reverse the excess amount of the escrow account using Event Type ARZ1 and BSA 0080 to increase Cash on Deposit with Treasurer (0070) and reduce Cash on Deposit with Other Fiscal Agents (0080). Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR 0070 – Cash on Deposit with Treasurer

CR 0080 – Cash on Deposit with Other Fiscal Agents

**5. *If the escrow account is forfeited or used in part to pay legal fees or other costs:***

Process a GAX document using the GA23 Event Type and the appropriate expense object (such as 6222, etc.) and escrow asset, BSA 0080 for the appropriate amount, depending on the situation. This will book the appropriate Cash Expenditure and clear the balance in the Cash on Deposit with Other Fiscal Agents BSA, 0080. Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR - Expense (Object 6222, 7599, etc.)

CR 0080 – Cash on Deposit with an Escrow Agent

## Proper Accounting for State Monies Deposited into Escrow Accounts

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**6. *If the escrow deposit is refunded, use the following transaction:***

The Third Party returns the funds and the State would create a CR document to reverse the entire amount of the escrow account using Event Type ARZ1 and BSA 0080 to increase Cash on Deposit with Treasurer (0070) and reduce Cash on Deposit With Other Fiscal Agents (0080). Be sure to enter the Escrow ID created in step #1 above in the Escrow ID field on the document header.

DR 0070 – Cash on Deposit with Treasurer

CR 0080 – Cash on Deposit with Other Fiscal Agents